

**FOOD
DEVELOPMENT
CENTRE**

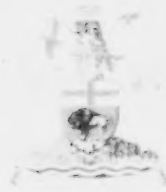
Growing Opportunities in Food

ANNUAL REPORT

2008/2009

**A Special Operating Agency of Manitoba
Agriculture, Food and Rural Initiatives**

Manitoba 



Minister of Agriculture, Food
and Rural Initiatives

Room 165
Legislative Building
Winnipeg, Manitoba CANADA
R3C 0V8

His Honour
The Honourable Philip Lee
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, MB R3C 0V8

Your Honour:

As Minister Responsible, I have the privilege of presenting, for the information of Your Honour, the Annual Report of the Food Development Centre for the fiscal year ended March 31, 2009.

Sincerely,

A handwritten signature in cursive script, reading "Rosann Wowchuk".

Rosann Wowchuk
Minister



Manitoba



Deputy Minister of Agriculture, Food and Rural Initiatives

Room 159

Legislative Building

Winnipeg, Manitoba, Canada R3C 0V6

T 204-945-3734

Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister:

I am pleased to present the Annual Report of the Food Development Centre (FDC) for the year ended March 31, 2009.

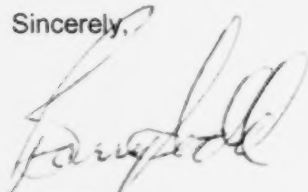
In 2008/2009, the FDC continued to focus on one-on-one client consulting and assisting entrepreneurs and food processors in their efforts to produce value added Manitoba agricultural products. FDC continued to focus on its key priority areas of meat, liquid food processing, functional foods and nutraceuticals.

The FDC management and staff were proud to have exceeded their Business Plan targets for 2008/2009. Their accomplishments include the development of 48 new food products, two organic products, and the introduction of nine new foods to market. The pilot plant provided the infrastructure for commercial processing of seven functional foods and four meat products and the nutritional analysis of 263 products.

The pilot plant increased its fee for service revenue by 38% and produced a retail value of more than \$1,700,000 of products throughout the year. The FDC was particularly proud of its assistance in the graduation of two clients' product lines to their own facilities. As well, FDC's strategic partnership with Great Plains Aseptic Processors has continued to provide diverse value added development options for their clients and benefits for Manitoba farmers through their use of Manitoba raw materials.

In 2008 the FDC was proud to celebrate its 30th anniversary of serving Manitoba's agri-food industry. Many successful Manitoba food businesses have had their start at the Food Development Centre.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry Todd", is written over a light-colored background.

Barry Todd
Deputy Minister and
Chief Executive Officer



TABLE OF CONTENTS

Activities of the Food Development Centre.....	5
FDC Organizational Chart.....	6
Vision, Mission, Strategic Objectives.....	7
I. FDC Project Activities and Highlights.....	8
II. Financial Analysis.....	17
II. Financial Statements.....	18

IN 2008/2009
THE ACTIVITIES OF THE
FOOD DEVELOPMENT CENTRE
RESULTED IN

the development of **48** new food products;

the development of **2** organic products;

assistance in the introduction of **9** new food products to the market;

commercial processing of **7** functional foods and **4** meat products;

the nutritional analysis of **263** products;

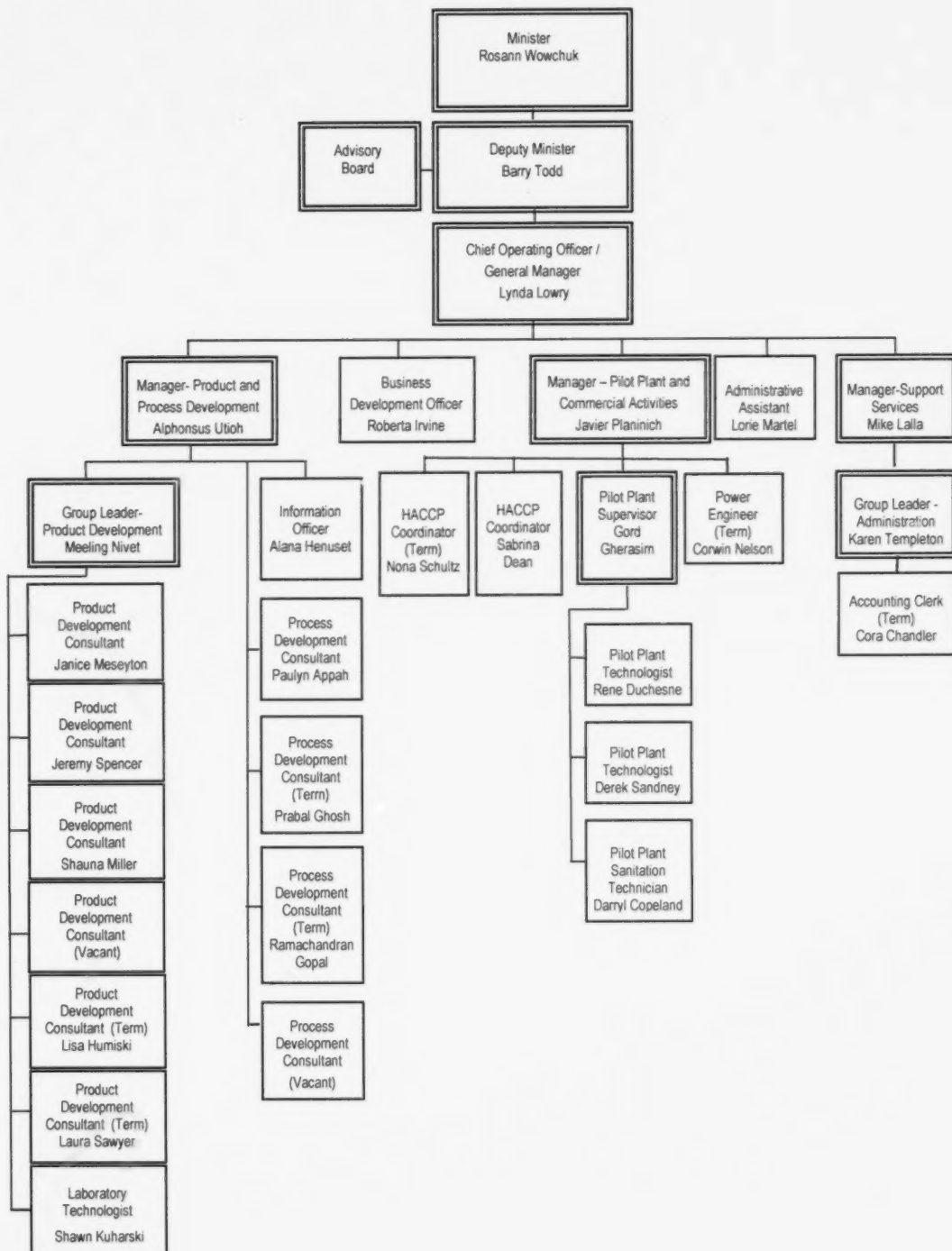
fee-for-service revenues of **\$524,028**.

FDC LEADS MANITOBA
IN
HOMEGROWN INNOVATION

FOOD DEVELOPMENT CENTRE

ORGANIZATIONAL CHART

AS OF MARCH 31, 2009



Our Vision

As a nationally and internationally recognized centre of excellence for developing and commercializing food and natural health products, Food Development Centre (FDC) provides access to world markets for Manitoba food companies. FDC fosters the dynamic growth of Manitoba's value-added, agri-food processing industry by developing new and innovative food products and processes that enable food companies to commercialize.

Our Mission

The Food Development Centre continues to provide the agri-food industry with the facilities and the expertise to successfully develop and commercialize food products, resulting in increased use of Manitoba ingredients for food, functional food and natural health products and positive economic impact for producers, processors and Manitoba communities.

Strategic Objectives 2009-2014

- Five innovative process technologies for application in the development of 125 new food products including 25 new functional foods and natural health products.
- Five strategic research and development projects with partners/collaborators/contacts that complement the spectrum of product development and commercialization.
- Operational and financial stability to reduce dependency on the annual provincial grant by generating revenues to offset increasing operating costs in the period of 2009-2014.
- An environment that fosters the pursuit of innovative ideas and entrepreneurial initiatives to achieve client success so that one client graduates from FDC in 2011 and another in 2014.

I. FDC PROJECT ACTIVITIES AND HIGHLIGHTS

1.1 Functional Foods and Nutraceuticals

FDC developed several functional food products for Manitoba companies, such as hemp and oat beverages, roasted pea snacks, specialty vegetable oils, etc. The commercialization of the roasted pea snack was one of the highlights in this area. The project resulted in the acquisition of a special piece of equipment by FDC and the strengthening of FDC's capabilities and technological capacity. The client has been able to introduce the product in national and international markets.

The development of a dry oat beverage mix led to the development of a full project to add value to a commodity based company. FDC is now applying this expertise to the development of dry beverage mixes for other Manitoba companies.

The Flax Canada 2015 project, in collaboration with the Canadian Centre for Agri-food Research in Health and Medicine (CCARM), moved into the clinical testing phase where the test foods and placebos are developed and produced by FDC.

FDC continued to strengthen its expertise in supercritical fluid extraction technology and its applications. The technology was a key aspect of collaboration with CCARM on their project to investigate potential applications of a "new oil". The success of the extraction process has led to plans to import this oilseed for further research and development for applications in functional foods and nutraceutical products. FDC has also submitted an article for publication on the use of this technology for extraction of specialty oils, such as seabuckthorn oil.

1.2 Liquid Foods

The development of a seabuckthorn beverage led to the first ever expression of interest by an out-of-province company for acquiring FDC's technology and formulation. FDC is in negotiation with the company to finalize the agreement on the rights to produce the beverage.

Two Manitoba companies launched a total of four flavours of hemp beverages produced by Great Plains Aseptic Processors (GPAP). The Manitoba food industry continues to benefit from the strategic partnership between FDC and GPAP. Agriculture producers also benefit through the use of Manitoba raw materials (grains and vegetables) for the development and production of liquid foods.

1.3 Meat Products

The Manitoba Forage Council (MFC), representing beef producers in the province who forage-finish their cattle contracted FDC to develop prototypes of a burger and sausage.

FDC developed a forage-fed beef burger and sausage using modified formulations based on the recipes provided by McEcker Food Productions. Complete fatty acid profiles were created and interpreted for 12 forage-fed beef samples as well as competitive meat products such as beef, chicken and pork. A database of conjugated linoleic acid level, omega 3, 6, and 9 fatty acid levels, trans fat level, etc. was created to identify market opportunities for the products. The burger and sausage prototypes, combined with the marketing opportunities, were used by the MFC to attract potential buyers and create value chains. MFC continues to show interest in working with FDC. Future opportunities are in beef texture analysis and nutritional label development to enhance the fatty acid profile database.

FDC completed the development of two flavours of elk jerky for a Manitoba company and these products are now commercially produced at FDC's pilot plant. This is the first elk jerky product of its kind marketed in Canada.

Other meat related products produced in the pilot plant include organic chicken breasts.

1.4 FDC International Initiatives

FDC organized the Canada-Russia Knowledge Transfer event held to encourage partnerships to be created in common areas of interest, such as functional foods and nutraceuticals, with emphasis on seabuckthorn processing. Russian and FDC scientists partnered to share knowledge with industry, government and academics through seminars, workshops and one-on-one meetings. The knowledge exchange provided an opportunity for Canadian growers and processors to learn about suitable Russian varieties for Canadian growing conditions. This activity generated a lot of interest and discussion among scientists, resulting in an agreement with the Canadian scientists at CCARM to obtain samples for toxicity testing for potential use in Canada. Canadian and Russian scientists will continue to conduct research on seabuckthorn leaves and the development of antiviral drugs. This initiative was funded by the Association of Universities and Colleges of Canada (Partners for Tomorrow Program) through the Canadian International Development Agency.

FDC was invited by the International Seabuckthorn Association (ISA) in China to attend the ISA Annual Council & Scientific Committee meetings from April 27 – 29, 2008. The ISA Annual Council and Scientific Committee meetings were organized to coincide with the 2nd China International Nutrition and Health Industry Expo in Shanghai. As part of the Expo, the ISA organized the International Seabuckthorn Forum that focused on developing seabuckthorn products for the health and wellness industry. Alphonsus Utioh, M.Sc., P.Eng, gave a presentation on FDC's research activities using seabuckthorn. While in China, Alphonsus was able to attend a meeting with GLG Life Technologies Inc. on production and processing of high grade Stevia, a no-calorie sweetener, which has just recently been approved as a food ingredient in the USA. Alphonsus also gave a presentation at the University of Shanghai and Qingdao. As a result of the meetings, a student from Qingdao is coming to the University of Manitoba to take graduate studies in the Department of Human Nutritional Sciences.

Alphonsus Utioh, M. Sc., P. Eng., was invited to speak at the Ethanol Producers and Consumers (EPAC) Conference in 2008 on the subject of ethanol co-products utilization in food. Talks generated a lot of interest in the industry including Husky Oil in Lloydminster, Saskatchewan, which requested a copy of the presentation for further review as they explore options for their distillers' dried grains. FDC continues to be referenced for its work on distillers' dried grains in food at food and fuel presentations made to the United States Department of Agriculture (USDA) in Washington by EPAC. Alphonsus has been invited back to the EPAC conference in 2009 to speak on other aspects of FDC research on ethanol co-products processing and utilization.

Alphonsus Utioh, M.Sc., P. Eng., attended Bio-Monterrey 2008 as a representative of Manitoba Agri-Health Research Network (MAHRN). The Canadian Consulate in Monterrey arranged meetings between FDC and food-related companies at the conference, one of which resulted in an expression of interest in the development of a hibiscus drink using Tetra Pak aseptic processing and packaging technology. Additional opportunities for project work included the development of a dry hemp beverage mix to overcome the high cost of shipping liquids and a project using corn husk as a tamale wrapper.

Prabal Gosh, Ph.D., representing the University of Manitoba and FDC, attended the International Drying Symposium in Ramoji Film City, Hyderabad, India and gave a presentation on "Three-dimensional barley drying model based on non-uniform initial moisture distribution and water diffusivities in endosperm and embryo". The symposium provided a forum to network with people in the field of drying to share information on recent developments and future directions in drying technologies.

In April 2008, FDC's Product Development Consultant, Jeremy Spencer, M.Sc., attended the Membrane / Filtration and Separations Technologies Short Course training at College Station in Texas. The course focused on fundamentals, new developments, applications and pilot plant demonstrations using membrane filtration equipment. This highly sophisticated equipment requires specialized expertise to allow clients to benefit from the technology.

Lisa Humiski, B.Sc., attended the Institute of Food Technologists (IFT) Wellness '09 to represent MARHN. The conference included a variety of seminars and discussion panels with a large focus on fibre, probiotics, baby boomers, portion sizes and the increasing prevalence of diabetes, obesity and allergens in our society.

Janice Meseyton, B.Sc., attended a two-day conference "Health Ingredients – Nutrition Ingredients Europe 2008" in Paris, France. Exhibitors from around the world featured food ingredients for gut, eye, joint, bone and heart health, and for delayed aging and beauty. She toured a food research centre and met with a multi-national company interested in working with FDC. Two project ideas resulted from the meeting; the first project involving product performance testing using household

cooking equipment has been completed, and a project proposal to identify meat cooking technology has been prepared and submitted to the company for approval. The trip was sponsored by MAHRN.

General Manager, Lynda Lowry, M.Sc., PHEc., gave a presentation on Manitoba's capacity and capabilities in the research, development and commercialization of functional foods and natural health products during NZ Bio in Auckland, New Zealand in April 2008. She again represented MARHN at AusBiotech in Melbourne, Australia in October, and met with a variety of academic institutions interested in collaborative activities with Manitoba.

FDC's international activities have expanded to India where there is interest in providing technical consultation to building food development centres there. Lynda travelled to New Delhi and Chandigarh in November to meet officials interested in contracting FDC's services and will be returning next fiscal year to pursue additional opportunities.

1.5 NRC-IRAP/FDC Contribution Agreement

FDC signed a Network Member Agreement with the National Research Council's Industrial Research Assistance Program (NRC-IRAP) to assist agri-food small and medium enterprises (SME) in expanding and strengthening their innovation capabilities. The projects were based on the work plan developed in collaboration with Allen Sturko, NRC Industrial Technology Advisor. These projects range from literature reviews on new technology development to value-added work for NRC-IRAP's targeted clients including:

- Literature Review on Value-Added Millet Products
- Literature Review on High Pressure Processing Technology
- Formulating a Dry-Mix Oat Based Beverage
- Extraction of Hemp Protein using Membrane Filtration

Two of these projects have led to industry funded projects for commercialization.

1.6 Strategic Research Program

FDC completed two key strategic projects: Ethanol Co-products Utilization and Development of the Functional Food and Nutraceutical Program in Manitoba, which have resulted in significant outcomes and the strengthening of FDC's research and development capabilities and capacity.

Five food products were developed using distillers' dried grains, including a confectionary product, ginger cookie, energy bar, vegetable cracker and rye bread. These products have been prepared for taste testing at various industry events in Canada and the USA, and presentations have been made to industry in Portage la Prairie and Minnedosa. An article was published in the Winnipeg Free Press on the

use of distillers' dried grains in food products. Husky Oil Marketing Company has requested information on the project findings as they explore the possibilities of producing food grade distillers' dried grains.

The functional food and nutraceutical program has allowed FDC to acquire technical expertise through various projects. This led to the development of five functional food products. FDC is working with a number of companies on commercialization of these products. The technologies of supercritical fluid extraction and steam distillation developed through this program are currently being used to develop food ingredients for Manitoba companies. FDC has become well known nationally and internationally as a leader in small fruit processing, as evident in its international linkages with Russia, China, Pakistan and India on agri-business knowledge transfer for small fruit processing.

The strategic research program continued with initiation of two funded projects: Designing and Developing Food Products for Baby Boomers, and Developing Food Applications for Pea Flour and Its Fractions. These projects have resulted in increased technical capacity and the addition of three term positions to complete the necessary product development work.

1.7 Nutritional Labelling

Nutritional labelling services continue to be in high demand by clients as a result of the mandatory labelling regulations. Emphasis was placed on helping clients understand the importance of creating nutrition facts for their products, and how they can use the information to better market their products using label claims. Nutritional labels were created for 263 products.

Key Activities and Targets from the 2008/09 Business Plan for Product and Process Development

FISCAL YEAR ACTIVITIES AND TARGETS	FISCAL YEAR RESULTS
<i>Product and Process Development</i>	
Develop 35 new food products	48 new food products developed
Initiate 25 new client contracts	25 new client contracts initiated
Complete nutritional analysis of 200 products	263 nutritional labels created
Generate \$500,000 of fee-for-service revenues	\$384,955 fee-for-service revenues
Maintain a turn around time on new client proposals of 4 weeks	Turnaround time on proposals of 3 weeks

1.8 Business Model Review

FDC has completed its Business Model Review, which was undertaken to identify more efficient and effective methods of delivering services to Manitoba clients. It was incorporated into a Strategic Plan for 2009-2014 and took into consideration FDC's organizational structure, cost structure and delivery mechanisms. It included

a new fee-for-service structure and a revised organizational structure that will enable FDC to be an adaptable and flexible business unit. On March 31, 2009, the Strategic Plan was forwarded to central government for final approval and authorization. It is expected that the Strategic Plan and fee-for-service schedule will be implemented in the 2009/10 fiscal year.

1.9 Pilot Plant Activities

The pilot plant provides a complete facility for the production and packaging for test markets or very limited established markets. As production quantities are increased, clients are able to identify and overcome many of the operational difficulties inherent in the scale-up process, and at the same time are able to better estimate processing input costs.

Highlighted pilot plant and commercial activities for 2008/09 include;

- FDC's federally registered pilot plant produced products for 13 commercial clients, 4 meat clients (chicken, elk, beef, pork), 4 functional food clients (saskatoons, raspberries, hemp, pulses) and 1 liquid food client (energy beverage).
- There was a decrease in the occupancy from the previous fiscal year due to the graduation of Kudu Foods and Manitoba Harvest from the pilot plant to their own business locations, as well as a decrease in the activities performed by Research and Development in the plant.
- The minimum level of occupancy for the year was 52%. This means there were at least two activities in the pilot plant in 129 days out of 248 working days.
- New pieces of equipment that were commissioned at the pilot plant include:
 - Oven (Doyon FC2-III)
 - Westfalia Centrifuge
 - GEA Filtration Unit Model R Pilot Plant
 - Risco Mixer with CO2 capabilities
- FDC has received the refurbished TA Pilot and is waiting to locate the equipment in a room with enough space to operate and adhere to CFIA regulations.
- There were seven new clients that began working with the FDC during this fiscal year. This resulted in the production of organic pea snacks, elk jerky, saskatoon jam and jelly, organic chicken sausages and seabuckthorn juice. Spray drying of alfalfa juice trials were used to identify a recommended methodology.

- FDC visited the PACK EXPO in Chicago to evaluate options for an automated packaging line. This line is necessary to deal with the future demand of existing and new clients. As an outcome of the visit, FDC received six quotes and was visited by one supplier to tailor the line to the limited space in the pilot plant. The packaging line will be purchased in the 2009/2010 fiscal year. In addition, contacts were made with Silverson machines to find out the possibility of increasing the output of mayonnaise production with existing equipment at FDC.
- ATCO/Frontec Corp. terminated their production plant equipment operations, maintenance and repair services contract with FDC, effective December 9, 2008. FDC hired a power engineer, Corwin Nelson, on a term basis to operate the equipment infrastructure. Another power engineer position will be needed in the future when GPAP has more than 14 hours of continuous operations per day.
- Kudu Foods (King Pie Canada) graduated from producing their meat pies in the pilot plant to their own plant in Winnipeg in November 2008. Kudu Foods has four kiosks in the provinces of B.C., Alberta, Nova Scotia and Manitoba.
- Manitoba Harvest continues to produce their award winning Hemp Bliss, a non-dairy, organic beverage, at FDC where the necessary elements for the creation of the hemp base needed for processing in GPAP's Tetra Pak line are produced. Manitoba Harvest has moved the rest of its production (Hemp Oil and Hemp Powder) to its own plant in Winnipeg.

Key Activities and Targets from the 2008/09 Business Plan in Pilot Plant

FISCAL YEAR ACTIVITIES AND TARGETS	FISCAL YEAR RESULTS
<i>Pilot Plant</i>	
Produce products with a retail value of \$1,000,000 in the pilot plant	Retail value of products made in the pilot plant reached \$1,764,409
Generate \$100,000 of fee-for-service revenues	Generated \$138,073 in fee-for-service revenues
Commercial processing with 10 clients (5 new clients; 3 in priority areas)	Commercial processing with 13 clients (7 new clients, 4 in the meat, 3 in the functional food, 1 in the liquid food areas)
Develop 5 HACCP plans for current clients and 5 HACCP plans for external clients	Developed 7 new HACCP plans for current clients and 1 new HACCP system for an external client
Maintain minimum of 2 clients per day in plant	52% capacity during the fiscal year

1.10 Hazard Analysis Critical Control Point (HACCP) Activities

On September 2008, FDC launched its HACCP services to external clients. The HACCP services include external audits, GAP assessments, verifications, training, document and on-site reviews for several standards including the Food Safety Enhancement Program (FSEP), HACCP Advantage and ISO 22000. To provide this service, one HACCP Consultant took courses and exams to receive the designation of ASQ Certified HACCP Auditor and Certified Quality Auditor, and has received IRCA Certified ISO 22000 Lead Auditor training. FDC will support training for a second HACCP Coordinator in the 2009/10 fiscal year.

FDC has attracted its first external client for the new HACCP service line. The company requested our assistance in the implementation of HACCP Advantage in their processing plant.

HACCP plans are required to operate in the pilot plant on a commercial basis. For that reason, the HACCP team developed seven new HACCP plans for new products being produced in the pilot plant.

HACCP activities include constant auditing with the new CFIA's Compliance Verification System (which started in February 2008), developing new HACCP plans for clients on a fee-for-service basis, reviewing HACCP plans and written programs, updating the programs and Standard Operating Practices (SOP) when needed, monitoring and verifying the activities in the pilot plant. The HACCP team was reinforced with the return of Sabrina Dean from maternity leave in April 2008.

HACCP Coordinator, Nona Schultz had her term extended to March 2010 to maintain the system at FDC, while HACCP Coordinator, Sabrina Dean provides consulting services to external clients.

1.11 Marketing Activities

The goal of all marketing activities at FDC is to encourage Manitoba food entrepreneurs to bring their food ideas to FDC to move them from concept to market. In doing so, FDC is sustaining the Manitoba economy and creating wealth for Manitobans. Eugene Warwaruk, the Business Development Officer (BDO), left to pursue other opportunities in December 2008 and was replaced by Roberta Irvine, BHEC., RD., in March of 2009.

In 2008/09, the BDO hosted 50 tours and presentations, an increase in demand by over forty percent from the previous year. The tour guests ranged from industry leaders and provincial politicians to local farmers and school groups. There were visitors from rural Manitoba, USA, Italy, France, Russia, South Africa, New Zealand, China and the Philippines.

In addition to the tours, the BDO attended over 20 trade shows and seminars. This attendance demonstrates support to organizations such as:

Manitoba Food Processors Association
Portage la Prairie Chamber of Commerce
Manitoba Rural Adaptation Council
Brandon Economic Development Office
Parkland Economic Development Office

FDC's services were promoted at the Direct Farm Marketing Forum, the Value Chain Workshop and the Great Manitoba Food Fight, which were excellent opportunities to network with current and future food entrepreneurs.

In September of 2008, FDC celebrated thirty years in business. The event was celebrated with dignitaries such as the Honourable Minister of Agriculture, Food and Rural Initiatives – Rosann Wowchuk and seventy-five other honoured guests.

1.12 Human Resources

Due to the steady demand of qualified professionals in the agri-food industry, FDC is constantly working to strengthen employee retention by re-evaluating current employee positions. In 2008/2009, FDC reclassified six permanent positions. This includes adding more specialized responsibilities to staff positions to encourage full utilization of their capacity and capabilities while providing opportunities for their growth and skill development.

FDC recognizes its role in providing work experience and on-the-job training opportunities for food scientists in Manitoba. Consequently, FDC staff are regularly recruited by other provinces and the food industry looking for individuals with training and experience. In 2008/2009, two employees left FDC to work in the Manitoba food industry and one moved to a food centre in Alberta. This enabled FDC to recruit three scientists with extensive education (M.Sc. in food science and Ph.D. in engineering) and one with more than 10 years experience in the meat industry to join FDC to help build the expertise of the staff complement.

II. FINANCIAL ANALYSIS

II.1 Summary Operating Results (In Thousands)

FDC had a net loss of (\$134.0) mainly as a result of decreased fee-for-service revenue, increased commercial facility repairs and maintenance and higher utility costs related to problems with the roofing and vapour barriers of the original building infrastructure.

Revenue	\$3,873.0
Expenses	
Salaries	1,844.0
Operating	<u>2,163.0</u>
Net Income (Loss)	<u>(\$134.0)</u>

FDC revenue was comprised of provincial grant funding, fee-for-service, lease and interest income. FDC also received revenue for the administration of the Food Safety Initiative (FSI) and Manitoba Agri-Health Research Network (MAHRN) programs as part of the Canada/Manitoba Growing Forward Continuity Agreement.

See attached financial statements for further details on FDC's operating activities for the year just ended.

II. FINANCIAL STATEMENTS

FOOD DEVELOPMENT CENTRE
*(An Agency of the Special Operating Agencies
Financing Authority Province of Manitoba)*

Financial Statements
Year Ended March 31, 2009

EXG
THE EXCHANGE

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Food Development Centre, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2009 and the statements of loss and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
May 6, 2009

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Balance Sheet

(In Thousands)

March 31, 2009

	2009	2008
ASSETS		
CURRENT		
Cash and short-term deposits	\$ 895	\$ 1,619
Accounts receivable (Note 5)	172	398
Prepaid expenses and deposits	78	60
Due from Food Safety Initiative	306	19
Deposit on equipment	-	554
	1,451	2,650
PROPERTY AND EQUIPMENT (Notes 3, 6)	9,781	9,531
SEVERANCE PAY BENEFITS CASH IN TRUST (receivable in 2008) (Notes 7, 12)	41	41
	<u>\$ 11,273</u>	<u>\$ 12,222</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 9)	\$ 364	\$ 798
Accrued vacation pay (Note 10)	98	87
Unearned revenue	62	102
Due to Functional Food Cluster	29	24
Current portion of long term debt (Note 11)	18	18
	571	1,029
LONG TERM DEBT (Note 11)	142	159
SEVERANCE LIABILITY (Note 12)	112	99
DEFERRED CONTRIBUTIONS (Note 13)	10,069	10,422
	10,894	11,709
RETAINED EARNINGS	379	513
	<u>\$ 11,273</u>	<u>\$ 12,222</u>

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Loss and Retained Earnings

(In Thousands)

Year Ended March 31, 2009

	2009	2008
REVENUE		
Grants - Province of Manitoba	\$ 2,338	\$ 2,234
Fee for service	524	878
Lease income	124	70
Interest and other income	178	125
Amortization of deferred capital contributions (Note 13)	709	668
	<u>3,873</u>	<u>3,975</u>
DIRECT OPERATING EXPENSES		
Salaries and benefits	1,726	1,409
Lab supplies	138	134
Purchases services	141	264
Travel	46	51
Postage, courier and telephone	47	36
Printing and stationery	13	16
Marketing	36	24
Library	16	23
	<u>2,163</u>	<u>1,957</u>
GROSS PROFIT	1,710	2,018
ADMINISTRATIVE EXPENSES (Schedule 1)	<u>1,844</u>	<u>1,811</u>
NET INCOME (LOSS)	(134)	207
RETAINED EARNINGS - BEGINNING OF YEAR	<u>513</u>	<u>306</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 379</u>	<u>\$ 513</u>

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 914	\$ 1,525
Cash receipts from grants	2,338	2,234
Cash received from Agricultural Research and Development Initiative	-	525
Cash paid to suppliers and employees	(3,553)	(2,840)
Interest paid	(102)	(109)
Interest received	38	45
Cash flow from (used by) operating activities	(365)	1,380
INVESTING ACTIVITIES		
Purchase of equipment	(969)	(1,506)
Deposit on equipment	554	(554)
Deposit in joint venture	-	200
Cash flow used by investing activities	(415)	(1,950)
FINANCING ACTIVITIES		
Due from Food Safety Initiative	(287)	15
Due to Functional Food Cluster	5	21
Deferred capital contributions	355	1,834
Repayment of long term debt	(17)	(18)
Cash flow from financing activities	56	1,852
INCREASE (DECREASE) IN CASH FLOWS	(724)	1,282
CASH - BEGINNING OF YEAR	1,619	337
CASH - END OF YEAR	\$ 895	\$ 1,619

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

1. NATURE OF ORGANIZATION

Established in 1978, as part of the Manitoba Research Council, the Food Development Centre (the "Centre") serves the agri-food industry by providing a wide range of services in the food and beverage industries. The Centre offers food product development research, testing services and assistance with technology transfer to enable industry to efficiently and economically produce high quality foods.

Effective April 1, 1996, the Agency was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from the Agency's operations. It finances the Agency through repayable loans and working capital advances. The financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Rural Development, being the Minister responsible for the Agency at that time, assigned responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of the Financing Authority.

The Agency is a part of the Department of Agriculture, Food and Rural Initiatives under the general direction of a General Manager/Chief Operating Officer, and ultimately the policy direction of the Deputy Minister and Minister.

The Centre remains bound by relevant legislation and regulations.

An advisory board with representation from the food industry, client's of the Centre, academia and government provides direction on policy and operating activities.

The Centre is economically dependent upon the Province of Manitoba, as it derives a significant portion of its revenue from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

2. CHANGE IN ACCOUNTING POLICIES

Effective April 1, 2008, the Centre adopted the following new handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1535 Capital Disclosures

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose its objectives, policies and processes for managing capital, a summary of quantitative data about what it manages as capital and whether it complied with any externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance.

Section 3862 Financial Instruments – Disclosures

Section 3862 modifies the disclosure requirements for financial instruments that were included in Section 3861, Financial Instruments – Disclosure and Presentation. The new standards require an entity to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments on its financial position and performance, the nature and extent of the risks to which it is exposed during the period and at the balance sheet date, and how those risks are managed.

Section 3863 Financial Instruments – Presentation

Section 3863 carries forward the presentation requirements of Section 3861, Financial Instruments – Disclosure and Presentation, unchanged.

The above noted new standards have no impact on the recognition, measurement or presentation of financial instruments in the Centre's year end financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment and goodwill. Actual results could differ from these estimates.

(continues)

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capital disclosure

The Centre's capital consists of retained earnings provided from operations.

The Centre's capital management policy is to maintain sufficient capital to meet its objectives through its retained earnings by managing transfers of surplus funds to the Province of Manitoba; meet short-term capital needs with working capital advances from the Province of Manitoba; and meet long-term capital needs through long-term debt with the Province of Manitoba. There were no changes in the Centre's approach to capital management during the period.

The Centre is not subject to externally imposed capital requirements.

Revenue recognition

Fee for service revenue is recognized on the percentage of completion basis and when collection is reasonably assured.

Lease income is recognized as revenue according to the terms of the lease.

All grants received have been recognized as income in the current year.

Funds received from the Province of Manitoba and the Government of Canada for the construction of the new building and purchase of equipment have been treated as deferred capital contributions and will be taken into income to match the amortization of the building and equipment.

Property and equipment

Equipment assumed as part of the conversion to a Special Operating Agency, April 1, 1996 is stated at its estimated fair value as determined by the Province of Manitoba. Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Building improvements	15 years	straight-line method
Equipment - commercial and product development	15 years	straight-line method
Equipment - office	20%	declining balance method
Computer hardware and software	5 years	straight-line method

The Centre regularly reviews its property and equipment to eliminate obsolete items. Government grants are treated as deferred capital contribution and are amortized based on method used for the related asset.

Property and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

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FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other Assets

Research and development costs are expended as incurred.

Unearned revenue

Unearned revenue represents cash received for projects that were started but not completed by year end.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial assets and liabilities are initially recorded at fair value. Measurement in subsequent periods depends on the financial instrument's classification. Financial instruments are classified into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The financial assets and liabilities of the Centre are classified and measured as follows:

<u>Financial Asset/Liability</u>	<u>Category</u>	<u>Subsequent Measurement</u>
Cash and short-term deposits	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Due from Food Safety Initiative	Loans and receivables	Amortized cost
Severance pay benefits cash in trust	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Due to Functional Food Cluster	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Severance liability	Other financial liabilities	Amortized cost

Amortized cost is determined using the effective interest rate method.

Gains and losses on financial instruments subsequently measured at amortized cost are recognized in the statement of earnings and retained earnings in the period the gain or loss occurs. Changes in fair value on financial instruments classified as held for trading are recognized in the statement of earnings and retained earnings for the current period. Changes in fair value on financial instruments classified as available for sale would be recorded in other comprehensive income until realized, at which time they recorded in the statement of earnings and retained earnings.

Fair value of financial instruments

The fair values of accounts receivable, due from Food Safety Initiative, accounts payable and accrued liabilities and due to Functional Food Cluster approximate their carrying values due to their short-term maturity.

(continues)

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The fair value of severance pay benefits cash in trust and its related severance pay liability is determined using the effective interest rate method.

The fair value of the long-term debt is determined using the present value of future cash flows under current financing agreements, based on the Centre's current estimated borrowing rate for loans with similar terms and conditions. The fair value of this long-term debt is \$171 as at March 31, 2009 (2008 - \$188).

Financial risk management - overview

The Centre has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; market risk; interest risk; and foreign currency risk.

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments which potentially subject the Centre to credit risk consist principally of cash and term deposits and accounts receivable.

The maximum exposure of the Centre to credit risk at March 31, 2009 is:

Cash and short-term deposits	\$ 895
Accounts receivable	172
Due from Food Safety Initiative	306
	<u>\$ 1,373</u>

Cash and short-term deposits: The Centre is not exposed to significant credit risk as the cash and term deposits are primarily held by the Minister of Finance.

Accounts receivable: The Centre is not exposed to significant credit risk as the customers are mostly government entities and payment in full is typically collected when it is due. The Centre establishes an allowance for doubtful accounts that represents its estimate of potential credit losses. The allowance for doubtful accounts is based on management's estimates and assumptions regarding current market conditions, customer analysis and historical payment trends. These factors are considered when determining whether past due accounts are allowed for or written off.

Due from Food Safety Initiative: The Centre is not exposed to significant credit risk as the receivable is from a program that is within the Province of Manitoba and funded by the Government of Canada.

The change in the allowance for doubtful accounts during the year was as follows:

Balance, beginning of the year	\$ 100
Provision for receivable impairment	60
Amounts written off	(79)
Balance, end of the year	<u>\$ 81</u>

(CONTINUED)

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity risk

Liquidity risk is the risk that the Centre will not be able to meet its financial obligations as they come due.

The Centre manages liquidity risk by maintaining adequate cash balances and by review from the Province of Manitoba to ensure adequate funding will be received to meet the obligations.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Centre's income or the fair values of its financial instruments. The significant market risks the Centre is exposed to are interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate exposure relates to funds on deposit and long term debt.

The interest rate risk on funds on deposit is considered to be low because of their short-term nature.

The Centre manages its interest rate risk on long-term debt through the exclusive use of fixed rate terms for its long-term debt. A change of 100 basis points in the interest rates would have increased or decreased its fair value by \$7 (2008 - \$8).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Centre is not exposed to significant foreign currency risk as it does not have any financial instruments denominated in foreign currency.

5. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2009		2008
Trade accounts receivable	\$ 193	\$	498
Allowance for doubtful accounts	(81)		(100)
Note receivable from tenant	60		-
	<u>\$ 172</u>	\$	<u>398</u>

Included in the allowance for doubtful accounts is the allowance for the note receivable from tenant, which had central government authorization for the allowance to be recorded.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

6. PROPERTY AND EQUIPMENT

	2009		2008	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Equipment - commercial and product development	\$ 5,858	\$ 1,086	\$ 5,045	\$ 837
Computer hardware and software	96	89	96	84
Equipment - office	369	345	369	317
Building improvements	6,608	1,726	6,547	1,288
Commercial and training expansion	96	-	-	-
	<u>\$ 13,027</u>	<u>\$ 3,246</u>	<u>\$ 12,057</u>	<u>\$ 2,526</u>
Net book value	<u>\$ 9,781</u>		<u>\$ 9,531</u>	

The Centre has received \$72 from the insurance company for replacing the hot water lines that had failed in October 2005. The proceeds has been applied against the building improvements.

7. SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA

The Province of Manitoba accepted responsibility for the vacation entitlements earned by the employees of the Centre prior to its designation as SOA, and the severance pay benefits accumulated to March 31, 1998 for certain Centre's employees. Accordingly, the Centre recorded a receivable of \$41 from the Province of Manitoba for these accumulated benefits. Effective March 31, 2009, the Province of Manitoba had agreed to pay the receivable balances related to the funding for these liabilities and has placed the amount of \$41 into an interest bearing trust account to be held on the Centre's behalf until the cash is required to discharge the related liabilities.

8. WORKING CAPITAL PAYABLE

The Centre has an authorized line of working capital from the Province of Manitoba of \$1,000 of which \$Nil. was used as at March 31, 2009 (2008 - \$Nil. was used).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Trade	\$ 221	\$ 649
Interest	118	128
Sales tax	25	21
	<u>\$ 364</u>	<u>\$ 798</u>

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

10. ACCRUED VACATION PAY

The employees of the Centre are entitled to vacation pay in the current year, based on the prior year's employment. A provision for this liability has been recorded in the financial statements.

11. LONG TERM DEBT

	2009	2008
Province of Manitoba loan bearing interest at 5.80% per annum, with annual principal payments of \$18 plus interest. The loan matures on April 30, 2017.	\$ 160	\$ 177
Amounts payable within one year	(18)	(18)
	<u>\$ 142</u>	<u>\$ 159</u>

Principal repayment terms are approximately:

2010	\$ 18
2011	18
2012	18
2013	18
2014	18

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

12. SEVERANCE LIABILITY

Effective April 1, 1998, the Centre commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of twenty three years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Centre. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Centre's employees to March 31, 1998. That responsibility was reflected by a \$41 receivable from the Province of Manitoba, which has been paid back during the fiscal year.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Centre's actuarially determined net liability for accounting purposes as at March 31, 2009 was \$112 (2008 - \$99). Commencing in the 2006 fiscal year, the actuarial gain of \$14 is being amortized over the 15 year expected average remaining service life of the employee group.

Significant long-term actuarial assumptions used in the March 31, 2005 valuation, and in the determination of the March 31, 2009 present value of the accrued severance benefit obligation were:

Annual rate of return	
inflation component	2.50%
real rate of return	<u>4.00%</u>
	<u>6.50%</u>
Assumed salary increase rates	
annual productivity increase	0.75%
annual general salary increase	<u>3.25%</u>
	<u>4.00%</u>

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

13. DEFERRED CAPITAL CONTRIBUTIONS

	2009	2008
Balance, beginning of year	\$ 10,422	\$ 9,256
Add: Contributions received		
Government of Canada	356	1,834
Less: Amount amortized as revenue	(709)	(668)
Balance, end of year	<u>\$ 10,069</u>	<u>\$ 10,422</u>

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and improvements of a building. The amortization of contributions is recorded as revenue in the statement of income.

In 2004, the Centre received a loan from the Province of Manitoba for \$2,625 bearing interest at 5.63% per annum, with annual payments of \$175 plus interest. The loan matures on May 18, 2019. The loan is to be repaid through future appropriations from the Province of Manitoba and therefore has been treated as a grant and included in deferred capital contributions to be consistent with the accounting presentation adopted by the Province of Manitoba.

As the future principal and interest payments will be funded by the Province of Manitoba, the annual principal repayment will be netted against the grant revenue received and the interest payment will be reflected as interest expense.

The deferred capital contributions will be brought into income at the same rate as the corresponding equipment and building improvements are being amortized.

14. DEFICIENCY IN ASSETS

The Special Operating Agencies Financing Authority and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer, from the Provincial Government to the Financing Authority, of the net assets required for the continuing operations of the Centre. As at April 1, 1996, the date of transfer, the liabilities assumed exceeded the value of the assets in the amount of \$35. This amount was recorded as the deficit at April 1, 1996.

15. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expensed by the Centre in the current year was \$89 (2008 - \$85).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2009

16. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding \$50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of \$50:

Utioh, Alphonsus	Process and Product Development Manager	\$	95
Appah, Paulyn	Senior Process Development Consultant		64
Lalla, Mike	Manager, Support Services		89
Giberasim, Gord	Supervisor, Pilot Plant		56
Nivet, Meeting	Product Development Group Leader		75
Schultz, Nona	HACCP/Regulatory Affairs Coordinator		61
Henuset, Alana	Information Officer		61
Templeton, Karen	Group Leader - Administration		55
Planinich, Javier	Manager, Pilot Plant and Commercial Activities		85
Dean, Sabrina	HACCP/Regulatory Affairs Coordinator		66
Ghosh, Prabal	Senior Scientist		61
Irvine, Roberta	Business Development Officer		72
Kuharski, Shawn	Product Development Consultant		50
Lowry, Lynda	Chief Operating Officer/General Manager		86
Meseyton, Janice	Senior Product Development Consultant		61
Miller, Shauna	Product Development Consultant		50
Nelson, Corwin	Power Engineer		50
Sawyer, Laura	Senior Scientist		72
Spencer, Jeremy	Product Development Consultant		57

17. RELATED PARTY TRANSACTIONS

The following is a summary of the Centre's related party transactions:

	2009		2008
Province of Manitoba (Special Operating Agency of the Province of Manitoba)			
Grants received	\$ 2,338	\$	2,234
Property taxes paid	150		149
Occupancy costs paid	639		656

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

FOOD DEVELOPMENT CENTRE
(An Agency of the Special Operating Agencies Financing Authority Province of Manitoba)

Administrative expenses *(Schedule 1)*

Year Ended March 31, 2009

	2009	2008
Accreditation and licensing fees	\$ 9	\$ 10
Advisory committee fees	3	-
Amortization	719	690
Bad debts	60	-
Computer expenses	74	86
Equipment rentals	62	120
Insurance	71	80
Interest on long term debt	100	111
Memberships	10	6
Occupancy expenses	639	656
Professional fees	22	33
Property taxes	150	149
Repairs and maintenance	120	58
Research and development	6	8
Staff relocation	9	8
Training	12	22
Expense recoveries	(222)	(226)
	<u>\$ 1,844</u>	<u>\$ 1,811</u>

